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## THE TARIFF ON TRIAL.

BY SIR RICHARD J. CARTWRIGHT, K.C.M.G., AND THOMAS G. SHEARMAN.

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IN ATTEMPTING to compress within the compass of a few pages anything like a complete statement of the effect of the protective system upon a country like Canada, perhaps the most important thing to keep steadily in mind is this simple proposition : that a good or a bad fiscal system is, after all, only one of many factors affecting a nation's progress.

For instance, no man who knows any thing of the nature and character of the respective populations, and of their environments, can ever suppose that the very best fiscal system that could be devised would induce a quiet, contented, frugal, unambitious people like the French *habitans* of the lower St. Lawrence to apply themselves to the accumulation of what is ordinarily called wealth with anything like the energy and success with which a keen and pushing people like the former natives of New England are certain to pursue that end in the teeth of every obstacle,—and that without prejudice to the question whether, after all, in the long run, the great mass of the population might not come ultimately to enjoy quite as much happiness, and possibly quite as much material comfort, in the one case as in the other.

All, therefore, that I can pretend to do within the limits of this article is to point out certain results which have followed the introduction of the protective system into Canada, and which, in my judgment, are due largely, if not solely, to its influence.

And here I may observe that, in forming an opinion of the effects of protection in Canada, it is necessary to remember that Canada is a country which is by nature and circumstances singularly ill fitted for the successful operation of a protective system, presenting therein a most complete contrast to the United States, in the case of which the conditions are literally and exactly reversed.

The most hasty glance at the map of North America, and the most superficial acquaintance with the circumstances of the two countries, will suffice to establish this point. Canada is a very thinly-peopled country, extending, it is true, over an immense area, and possessing great latent resources; but it is also one in which the several groups of fertile and inhabited, or habitable, country all lie substantially within the same zone (*i. e.*, the northern part of the north temperate zone); all produce much the same articles; all need to import many things from abroad; all are separated from each other by great tracts of barren and worthless territory; all are rather competitors than customers of each other; and all would naturally prefer to trade with their neighbor to the south, or with countries across the ocean, than with their own people. To all this must be added the fact that the population, besides being scattered, is so small that it is quite impossible to carry on many lines of manufacture (except at a ruinous cost to the consumer) in so contracted a market.

In the United States, on the contrary, we have the complete opposite. There we have a very large nation, nearly equal in mere numbers to any two first-class European kingdoms, or, rather, we have a group of over forty nations (if we look to the area they occupy and to their general position), lying for the most part very close to each other, with no desert interval between; capable of producing within their own territory well-nigh every article it is possible to conceive or need; extending not merely from one ocean to the other, but embracing every variety of climate from the arctic to the tropical; in fact, forming pretty much a complete world among themselves, and enjoying absolute and complete free trade the one with the other. In such a country, if anywhere, the evils of protection ought to be reduced to a minimum; nay, it would be a perfectly fair argument for the advocates of free trade to allege that the prosperity of the United States was due to the perfect system of free trade they have wisely established among themselves, and not to the shackles they have allowed to be placed on their natural liberties in dealing with foreign nations.

In any case it is perfectly clear that the success (if success it be) of the protective system in such a country affords no guarantee that it would prove of advantage to one like Canada, though there is not the shadow of a doubt that the main reason which

influenced the majority of the Canadian electorate in adopting it was the example of the United States.

This preliminary question being disposed of, it becomes my duty to point out how and to what extent protection has affected the political and social well-being of the people of Canada. Looking at the matter from a politico-economical stand-point, the first and most obvious effect has been this : up to the date of the introduction of the protection theory of taxation—to wit, that it is possible by the imposition of certain taxes to increase the collective wealth of the nation—the people of Canada had, on the whole, been a frugally-minded people, submitting, indeed, to a good deal of unnecessary expenditure, but doing so grumblingly and with a strong and deep-rooted conviction that all taxes were at best a necessary evil, and that it was the plain duty of a government to be economical if it could, and to impose as few taxes as possible.

One of the most remarkable, and in many ways one of the most important, results of the protectionist propaganda which was preached very successfully in Canada in 1877 and 1878, and which was actually reduced to practice in 1879, was that the good old wholesome dislike to taxation (and, consequently, to undue an extravagant expenditure) was for the time being completely rooted up from the minds of the majority. As very often happens, the indirect and secondary result of a false theory is not the least mischievous. In this case it has practically removed all check on expenditure by the government.

Once imbue the minds of a large section of the people with the idea that wealth can be created by imposing taxes, and it is obvious that they have no longer any reason for opposing the imposition of new taxation, and that when the government wants money it need only profess that it desires to encourage new industries, to find a ready excuse for refilling its coffers. The present government of Canada have not been slow to learn and profit by this lesson.

Under a system of taxation for purposes of revenue only, the total expenditure of Canada for the year 1874 was \$23,316,316. In 1878, under the same system, it had increased to \$23,519,301, being an increase of barely \$203,000 in *four* years, in spite of the fact that a very large sum of money had been expended in the interval upon public works. Under a system of taxation for protection, the total expenditure of Canada for the year 1889 was

\$36,917,834, having increased by an amount of \$13,398,531 in eleven years. So in 1878 the actual taxation of Canada was \$17,841,938, though, as there was a deficit in that year, the necessary taxation might be placed at \$19,000,000. In 1889 the actual taxation was \$30,613,522, being an increase of \$11,613,522, taking the necessary taxation (so called) of 1878 as a basis.

This, however, is very far indeed from representing the real amount of taxes taken out of the pockets of the people. As every intelligent advocate of protection knows, under a protective system the public *must* be taxed, *in rerum natura*, to a very much greater extent than is represented by the sum paid into the treasury. It is not possible to estimate this with absolute accuracy, but enough is known as to the effects of protection in Canada to make it certain that the sum thus taken out of the pockets of the general public is not less than 50 per cent. (probably much more) of the revenue received by the government from taxes. Of this amount there is no doubt that a large portion is absolutely wasted (*i. e.*, expended in making good the loss incurred in carrying on manufactures under disadvantageous conditions), but a large part finds its way into the pockets of a favored few, for whose benefit, under the protective system, the community at large are subjected to this extra taxation.

What all this means as regards the question of extravagant expenditure may best be understood by comparing the actual taxation and expenditure of Canada and the United States, during a period before the latter were finally committed to the protective theory or were hampered with the results of their great civil war. The comparison is instructive in more ways than one, and to make it more complete I will take, first, a single year and then a decade.

In 1845 the population of the United States was (by estimate).....	20,000,000
The taxes of the United States were .....	\$27,531,630
The total expenditure was .....	\$22,935,828
In 1889 the population of Canada was perhaps.....	4,800,000
The taxes of Canada were.....	\$30,613,522
The total expenditure was .....	\$36,917,854
In the decade from January 1, 1840 to January 1, 1850, the average population of the United States was .....	20,000,000
The taxes of the United States were .....	\$224,504,499*
The expenditures were .....	\$306,429,957
(Includes Mexican War.)	
In the decade from 1879 to 1889 the average population of Canada was (by estimate).....	4,500,000
The taxes of Canada were.....	\$262,812,578
The expenditures were .....	\$320,600,134
(Not including sums on capital account.)	

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\* Adding \$7,000,000 for half year of 1843.

From these last items may be deducted a sum of \$40,000,000 paid as subsidies to the several provinces (although in strictness it should be pointed out that the United States have many expenditures for which Canada has no equivalent); but giving Canada the benefit of this, we arrive at this singular result: that the actual taxation of Canada, with a population averaging 4,500,000, during a period of ten years is barely \$2,000,000 less than that of the United States on an average population of 20,000,000, and the expenditures are in proportion.

Comment is hardly necessary, nor, indeed, does space permit me to point out the enormous mischiefs which result in a young and poor country from absorbing so large a proportion of the earnings of the people, in defraying the charges of the federal government, as is now being taken in Canada. All that I will now say is that, assuming that 50 per cent. should be added to the nominal amount of the taxes to represent the real sums of taxation on the people, the sum total so taken in Canada between 1879 and 1889 is not less than \$393,000,000, and in all probability is very much more.

It is hardly necessary to say that, as the present annual taxation of Canada is \$30,613,522, the real taxation, on the above hypothesis, is over \$45,000,000 per annum, without taking municipal taxes into account. This means a burden on the people out of all proportion to the benefits they receive from the government, and is a most serious drag on progress.

Unfortunately, there is a yet darker shade to the picture. What the result may have been in other countries I cannot say, but in Canada (over and above the extravagant expenditure above referred to) one most important consequence of the introduction of the protective system has been, at the same time, to make provision for a large and permanent corruption fund to be applied with the effect and the regularity of a machine to debauching the press and the electorate as occasion serves.

It is probable that this result is inherent in the system. Speaking with knowledge, I say deliberately that I can conceive no more effectual method of installing and intrenching corruption in the politics of any country than to give a large number of active, energetic business men, frequently persons possessed of great wealth, and almost always having a large control of money, a direct pecuniary interest in controlling legislation and in sup-

porting any particular political party. Of course they will do it, and there is but one way in which they can do it. Being subsidized, they must subsidize in return. It is quite impossible to pause to point out the innumerable ways in which this corrupt system works for evil at all times and periods ; but I will give one notable example. Shortly before one of our general elections the present Premier of the Dominion, Sir John Macdonald, being pressed for funds, deliberately summoned some eighty or ninety of the principal protected manufacturers in Canada to meet him at the Queen's Hotel in Toronto, and then and there, in good set phrase, told them that, as the government had helped them to enrich themselves at the public expense, they, in return, must help the government to keep in place ; nor did he dismiss them till they had assessed themselves in a large amount for the purpose of providing a fund wherewith to corrupt the electors of the Dominion.

From various causes this practical effect of protection is more easily traced and is probably pushed to greater lengths in Canada than it is in most other countries; but it may fairly be laid down that wherever such things are done, and are known to be done, without involving the instant political ruin of the criminals, government has ceased to be an engine for promoting the well-being of the people, and is at best but a convenient apparatus for dividing the spoil.

One other effect deserves special notice. It is true, no doubt, that there are several causes now at work, all tending to promote the concentration of large fortunes in the hands of a few individuals ; but it is equally true that in Canada this tendency has been very greatly intensified by the operation of the protective system ; and whatever else it has or has not done, it has aided powerfully in the displacement and transference of wealth from one section of the community to the other.

This tendency is manifest most of all in the province of Ontario, by far the wealthiest and most populous province of the whole Dominion, containing very nearly one-half the entire population, and contributing at least three-fifths of the entire revenue. Socially and economically considered, the condition of Ontario prior to the introduction of protection was one of a highly favorable character, and well suited to develop the best qualities of its people. The number of considerable fortunes was, indeed, small,

but the diffusion of wealth and the general well-being of the entire community was very great. In fact, Ontario at that time might have been fairly described as a country mainly occupied by prosperous yeomen owning their own farms, and studded with a very unusual number of small but thriving towns, which ministered to the wants of the agricultural class.

To-day, after eleven years' experience of protection, and largely, though possibly not altogether, in consequence of it, the picture is exactly reversed. There are probably ten times as many large individual fortunes (measured by the Canadian standard). One or two large towns have grown and thriven, and have absorbed into themselves almost the whole increase in the province in which they are situated; but the condition of the vast majority of the once-thriving small towns and villages is that of utter stagnation. What is even more important, the actual selling value of every farm in Ontario (and probably in all Canada, very new settlements excepted) has been seriously depreciated, and a very large number of their proprietors are hopelessly mortgaged; in fact, have been reduced from the status of independent yeomen to a position very much worse than that of ordinary tenants-at-will, inasmuch as they are to all intents and purposes insolvent debtors without any reasonable prospect of extricating themselves from their entanglements. Simultaneously with this reduction in the values of farm lands, and the enormous increase of indebtedness on the part of the farmers, an almost complete stop has been put to the settlement of the province.

Ontario has an area of 180,000 square miles, and though it is not to be pretended that the whole, or even perhaps one-half, of this immense territory is fit for agricultural purposes, it is simply absurd to contend that anything like the whole available area has been occupied, much less brought into cultivation. Nevertheless, while up to the time at which Canada adopted protection the number of persons engaged in agriculture kept steadily growing from year to year at a very respectable rate per annum, during the last decade (if the municipal statistics of Ontario are to be relied on) the rural population has been all but absolutely stationary. Out of the ninety-two constituencies into which Ontario is divided, nine are exclusively urban. Of the remaining eighty-three divisions, fifty-three report that in them the rural



population has positively retrograded during the last ten years, while of the other thirty, hardly half a dozen report a growth of the rural population equal to the natural increase during that interval. This, too, in spite of the fact that a very large number of immigrants are alleged to have settled in the Dominion (principally in Ontario) during that period, and that many thousands of miles of new railroads have been constructed, by which a very large extent of virgin territory has been made accessible for settlement.

The statistics of the other provinces are not sufficiently perfect to allow me to speak with equal positiveness of their condition ; but no man who knows anything of Canada can doubt that, as regards the older provinces at any rate, what is true of Ontario is, *a fortiori*, true of the rural population elsewhere.

Incidentally it may be observed that the smaller towns and villages as a rule report the same state of things ; the population is for the most part stationary or retrograding, and only in a very few instances does the growth exceed the natural increase.

To put the matter briefly, the results of the introduction of the protective system in Canada have been :

1. To remove all check on the expenditure of the government and to encourage a reckless extravagance on their part, which has resulted in an annual expenditure for federal purposes of nearly 50 per cent. more (after making all deductions) for a population of less than *five* millions than the sum required by the United States for the like objects when their population was over *twenty* millions.

2. To systematize and intensify the tendency (always so perilous to the welfare of representative governments) to use corrupt means for the purpose of influencing the press and the electorate, and to make it the direct pecuniary interest of a very active and influential class to provide a regular and large fund for such purposes.

3. To aggravate and accelerate the tendency to accumulate large fortunes in few hands, and at the same time to increase the indebtedness and depreciate the value of the property owned by the mass of the community, more especially in the case of the agricultural class.

4. To favor the growth of a few large towns at the expense of the smaller ones and of the rural population, which latter has

been reduced to an absolutely stationary condition over very large portions of the Dominion, in spite of a large (alleged) immigration and of the fact that much new territory has been thrown open.

These, so far, have been the results in Canada in the period from 1879 to 1890, and if they have been more marked than in other cases, the explanation is to be found in the fact, already alluded to, that for a variety of reasons Canada is singularly ill adapted for carrying out a scheme of protection, and was singularly unwise in allowing herself to be induced to copy the United States.

If it be inquired, further, how it comes to pass that the people of Canada continue to tolerate such a system, the answer is obvious. In the first place, as every man of any practical experience in politics well knows, it is always a matter of great difficulty to overthrow a well-organized system of corruption which has identified itself with a great political party, and has had the wisdom to secure the services of a moiety of the press.

In the next place, the bare issue of protection *versus* free trade, or a tariff for revenue, is never presented alone to the people, but is always complicated by being intermixed with many other questions, perhaps especially in Canada. Then, again, it takes time for the consequences of any great fiscal change to develop themselves, and the proof of much that has been stated above has only been obtained within a recent period.

Lastly, an immense and continuous emigration of those very persons (*i. e.*, of the younger and more enterprising part of the community) who would have been most disposed to assist in overthrowing these corrupt combinations has been going on from Canada with very little cessation for a good many years.

It goes without saying that under such circumstances, the mere fact that a protectionist government have remained in power in Canada for a certain term of years affords very little evidence indeed that they have governed in the true interests of the larger portion of the community.

RICHARD J. CARTWRIGHT.

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THE United Question Clubs of Massachusetts recently addressed to several public men a series of questions based on the articles by Mr. Blaine and Mr. Gladstone in the January number

of THE NORTH AMERICAN REVIEW. Among the replies received was the following :

As your inquiries all relate to points suggested by the arguments of Mr. Blaine in reply to Mr. Gladstone, permit me to say, in general, that Mr. Blaine's article shows his accustomed ingenuity, by his avoidance of all the real issues between free trade and protection, whether raised by Mr. Gladstone or any one else, and that the whole line of his article reminds me forcibly of the advice of an experienced lawyer, whose aim was simply a present success, without the slightest regard to substantial justice—"Never reply to any of your opponent's real arguments ; but raise a new line of discussion, which will cause the jury to forget entirely everything which your opponent has said."

Replying now to your questions, in their order :

1. With reference to Mr. Blaine's statement that navigation is "one interest which England has protected steadily and determinedly, regardless of consistency and regardless of expense," payment made strictly and in good faith for the purpose of mail service alone is not, in my judgment, a matter of protection or in any way connected with a protective policy. I have no very special knowledge as to what percentage of the total tonnage of British steamships receives payment for mail service, but I do know that it is very small. Very few British ships of any kind receive such payments ; and, as to the vast majority of British vessels, whether steam or sailing ships, they really suffer by reason of the payments which are made to the few mail vessels by the British government, so far as those payments are at all in excess of the strict commercial value of the mail services rendered. It obvious that if ten steamships are running between the same ports, and one of them receives anything which in fact amounts to a subsidy, this enables that steamship to carry freight at a lower rate than the other nine can afford to do, and so gives to it an unfair advantage, to their great prejudice. So far, therefore, from British payments for mail service amounting to a protection of British navigation, taken as a whole, their effect is the very reverse.

2. Mr. Blaine's statements with regard to steel rails only tend to prove that the duty on these rails could be entirely abolished, without the slightest injury to our domestic manufactures. This country has paid to the domestic manufacturers of steel rails

much more than \$200,000,000 in excess of the price which was paid for similar rails used by European railroads. The actual cost to the country at large for thus artificially fostering the steel-rail industry, even after allowing for the advance in price which doubtless would have taken place in England if we had made a larger demand upon its manufacturers, in the absence of a tariff, cannot be estimated at less than \$150,000,000. At the lowest rate of interest paid by business men in this country, the annual interest on this sum would suffice to pay all the wages of all the persons employed in the steel-rail mills in the United States from the beginning of their work to the end of the next twenty years.

3. Mr. Blaine's list of articles in which American manufacturers can successfully compete in Canada with English manufacturers is really a complete refutation of his whole argument ; because it shows that, even with our heavy duties upon the raw materials of these manufactures, we are, nevertheless, able to compete successfully with England, and, therefore, that there is no need whatever of maintaining high duties upon similar articles imported from abroad, except for the purpose of enabling our domestic manufacturers to have a monopoly of the home market and to charge to American consumers more than they do to Canadian consumers ; and, because, moreover, the very nature of these articles shows that the greater the amount of skilled labor put into any article, the greater is the advantage of manufacturers in the United States over English manufacturers of that article. All the articles mentioned by Mr. Blaine as largely exported from America are articles in which a large amount of skilled labor is employed. Although the daily wages are higher in America than in Europe, the actual cost of labor is really much less with us, owing to the superior skill of our workmen. If the duties were taken off the raw materials of these manufactures, we should clearly be in a far better position to compete with Europe.

4. You ask : " Is Mr. Blaine right in assigning as the cause of the panic of 1857 the tariff of 1846, or as the cause of the panic of 1837 the tariff of 1833 ? " To a certain extent he is ; but for precisely the opposite reasons from those which he assigns. Under both of those tariffs a large surplus had accumulated in the Treasury, proving that those tariffs were far too high, as in fact

they were. This surplus, which kept on growing from 1833 to 1837, was undoubtedly the one great cause of the panic of 1837 and of years of subsequent disaster. Money had piled up in the Treasury, for which the Federal government had no honest use, and which it eventually distributed among the States, early in 1837, after having kept it on deposit for some years with the State banks. The State banks used these deposits as a means of inflating the currency and giving an enormous stimulus to land speculation. When the surplus was distributed among the States, in March, 1837, the government was obliged to call it in from the banks; and immediately all the banks went to pieces, and the speculators were ruined. The government succeeded in recovering its funds and distributing them among the States, which, however, had no good use for them, and therefore squandered them in enterprises which proved a total loss; and this caused the second panic of 1839. But the common pretence that the tariff in May, 1837, when the panic took place, was a low tariff, or a revenue tariff, is entirely untrue. On the contrary, the tariff during the whole period from 1832 to the end of the year 1837 was very much higher than the Morrill tariff of 1861, to which Protectionists now attribute all the prosperity of our country. The duties on pig-iron and on most of the leading articles of domestic manufacture were not, in fact, as low as they are now. The panic of 1837, therefore, took place under one of the highest tariffs ever known in the history of our country; and it was in a very large degree caused by the protective system.

The panic of 1857 was not in the least caused by the lowness of the duties under the tariff of 1846. On the contrary, those duties, although much lower than the duties now existing, were so high as to cause again the accumulation of a large surplus in the Treasury, for which the government could find no honest use. The great prosperity of the country led to a renewal of land speculation on a large scale, which ended, as it always does, in blocking the business of the country and undermining banks and trust companies. Meanwhile, masses of gold, which were needed for the circulating medium of the people, were locked up in the sub-treasury; and when confidence was shaken and depositors sought payment in gold, the banks were unable to pay, because the government had locked up the gold. To this extent,

but in no other way, the tariff of 1846 had some influence in aggravating the panic in 1857. *Every* tariff helps to bring about commercial disasters.

5. With regard to the condition of manufacturing and other industries at the close of the protective tariff in England, which was, practically, in 1842, when all protection, except to agriculture, was substantially abandoned, Mr. Blaine's assertion, "that at that moment Great Britain had reason to feel supremely content," is supremely absurd. In 1842 the manufacturers of Great Britain were in desperate straits; the employers making no profits and the workmen starving. Even assuming, as Mr. Blaine does, that the protective tariff extended to 1846 (which is true as to agriculture only), the people of Great Britain were suffering severely in consequence of the failure of crops and the limitation of their general industries, while the people of Ireland were absolutely starving from famine. There never was a moment at which Great Britain had less reason to feel content than at that time.

England renounced her protective system because her people then recovered their senses, after a long period of delusion. Every successive measure looking towards free trade proved highly beneficial to the whole people of the country. Some steps in that direction were taken between 1826 and 1846, but they were slight and small; and, accordingly, England's development as a manufacturing nation was very slow during that period. Her development was rapid after 1846; still more rapid after the further clearing out of the protective duties in 1853; but most rapid of all after the entire destruction of the last shred of protection in 1860.

6. You ask if Mr. Blaine is "right in assuming that, if we had bought our steel rails of Great Britain, it would have been necessary to pay for them in gold." Clearly he is not right. It can never be "necessary" to do anything impossible; and it is and always has been impossible for our country or any other to pay for any very large proportion of its importations in gold. This country is able to pay a larger proportion of gold than any other country for the simple reason that we produce more than any other. But our annual production of gold is not enough to pay for one-tenth part of our present imports. If, therefore, we had bought our steel rails abroad, we should have paid for them in some production of our own country other than gold, which

would have been made by American workmen and paid for at American rates of wages.

7. Your seventh question I pass, as it merely relates to Mr. Blaine's consistency, which he can be left to settle.

8. It is undoubtedly true that before the United States of America had any tariff, and before there were any United States, manufactures had so far developed in these colonies as to compete successfully with the manufactures of Great Britain in several branches. Under the old colonial governments, when the laws of Great Britain were framed, as was supposed, for the especial benefit of British merchants and manufacturers, and when the American colonies were strictly forbidden to do anything which would interfere with their profits, three-fourths of all articles used on American soil were made by Americans at home, while considerable quantities of pig-iron were made in America and exported to England.

9. High wages in the United States have probably some influence upon wages in other countries, but comparatively little. Wages cannot advance in any country where the productive power of laborers does not advance. The great reason why wages have advanced in both England and the United States is that the productive power of workmen in both countries has increased, their standard of living has advanced, and this in turn has given them greater health, strength, skill, and power of combination.

10. As the price of manufactures has declined more rapidly in countries where protection does not exist than in America, where protection does exist, it is very clear that Mr. Blaine is wrong in assuming that protection has brought down prices. He assumes that protection has built up American manufactures; but the fact is that protection has killed more manufactures than it has helped. It is in the very nature of protection that it should do this, and it never can do anything else. No doubt some few branches of industry flourish more largely in this country than they would do in the absence of a tax upon the people to support them; but they only do this by extinguishing other and more valuable industries, and thus compelling people who are deprived of their natural means of living to work in the protected lines of manufacture in order to get a living at all.

THOMAS G. SHEARMAN.